

Kentucky Tax Alert



A KRC PUBLICATION FOR THE TAX PROFESSIONAL

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Electronic Commerce Notes of Interest

Electronic Filing (ELF) of Tax Returns

In cooperation with the Internal Revenue Service (IRS), KRC will again offer electronic filing of individual income tax returns for the 2001 tax year. Authorization for electronic filing of Kentucky full-year resident returns is available to all interested preparers who:

- (1) are accepted in the federal electronic filing program;
- (2) transmit returns to the IRS Cincinnati Service Center;
- (3) use software approved for Kentucky electronic filing; and
- (4) pass KRC suitability checks.

Preparers who wish to participate in the coming year should submit federal Form 8633, Application to Participate in the Electronic Filing Program, to the IRS. The sooner the application is submitted, the sooner the preparer will receive authorization to participate in the program. KRC does not require a separate application.

Persons who wish to obtain a copy of KRC's handbook for electronic filers may call (502) 564-5370. This publication may also be downloaded from KRC's Web site at <http://revenue.state.ky.us>.

Form 8453-K is the signature portion of the electronic return. It must be completed and signed by all appropriate parties before the return is transmitted electronically. Form 8453-K:

- authenticates the return;
- authorizes the electronic return originator (ERO) to file the return electronically on behalf of the taxpayer;
- serves as a transmittal for the associated nonelectronic documents that will be stapled to Form 8453-K; and
- authorizes KRC to inform the ERO whether a taxpayer's return has been accepted.

Again during the 2002 filing season, preparers can select the frequency of mailing completed Forms 8453-K to KRC. Every ERO will receive an 8453-K Mailing Election Form that should be completed and returned to KRC. The 8453-K Mailing Election Form will allow the ERO the option of electing to mail completed Forms 8453-K:

- once electronic return acknowledgment is received from KRC,
- monthly,
- quarterly, or
- at the end of the filing season.

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Electronic Funds Transfer (EFT)

KRC accepts the electronic transfer of funds for payment of sales and use, withholding, and bank franchise taxes. Detailed instructions for payment by EFT will be sent to all new registrants. Taxpayers who wish to participate in this program should register with KRC's Electronic Commerce Group (ECG). To obtain an application, or for additional information, please contact the ECG at (502) 564-6020 (voice) or (502) 564-9897 (fax).

Common EFT errors include:

- Incorrect period end date is transmitted. The period end date is the last date of the reporting period, not the due date of the return.
- Account number and/or tax type is incorrect. Make sure the account number entered is the correct account number for the type tax being paid.
- Information is formatted incorrectly.
- Money is submitted via wire transfer without authorization.

Importance of Using Correct Corporate Account Numbers

Using the correct **Kentucky corporation income and license account number**, along with the correct federal identification number, enables the Cabinet to operate efficiently and minimizes unnecessary contacts with the taxpayer. Without the correct account number, document processing is delayed, payments are posted incorrectly and/or delinquency notices are generated. Also, during initial document processing, if the corporation cannot be properly identified, a new and separate **Kentucky corporation income and license account number** may be issued to the corporation, resulting in duplicate account numbers.

Upon registering with KRC, corporations receive correspondence notifying them of the specific tax account numbers (corporate, sales, withholding, etc.) issued to the corporation. The **Kentucky corporation income and license account number** should always be included on all corporation documents, payments, etc., that are submitted to KRC to ensure proper handling.

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KRC Again Using Bar-Coded Labels on Individual Income Tax Returns

For the 2001 individual income tax year, KRC is again using preprinted, bar-coded address labels. These labels are used in conjunction with KRC's Automated Refund and Tax Information System (ARTIS), which allows taxpayers to verify that KRC received their returns and to check on the status of refunds by touch-tone telephone.

With the bar-coded labels, KRC reduces the amount of time required to acknowledge receipt of a taxpayer's return from eight weeks to as short a time as 24 hours. Use of the labels also results in faster processing.

Two preprinted labels are included with the tax packets or label postcards KRC mails to taxpayers. Each label contains

John Q. Public
1234 Main Street
Anytown, KY 00000-0000
[Bar Code]

the taxpayer's name, address, and taxpayer identification number (Social Security number) embedded in a scannable bar code.

In response to taxpayer concerns and federal regulations, the taxpayer identification number is not visible on the labels mailed to taxpayers.

Use of the bar-coded labels does **not** increase the likelihood of a taxpayer being audited by KRC.

Upon receipt of an individual income tax return, KRC scans the bar-coded label and the information is uploaded to ARTIS. Taxpayers may then call ARTIS at (502) 564-1600 to verify that KRC received the return. Acknowledgment of receipt is available within 24 hours during nonpeak processing times for taxpayers using labels, and within 72 hours during peak times. For taxpayers not using either label, information from ARTIS is not available until the return is processed.

Taxpayers receiving labels with an incorrect address may use these labels, but should correct the address on the label. Taxpayers receiving address labels with an incorrect name should not use the labels. They should instead print the requested information in the space provided on the return.

Address Correction

The **911 service** has changed the Corbin Taxpayer Service Center's location address. The new address is 15100 N. US25E, Suite 2, Corbin, KY 40701-6188.



Employers Encouraged to Release Forms W-2/K-2 Early

In an effort to speed the issuance of individual income tax refunds, employers are encouraged to release employees' Wage and Tax Statements, Forms W-2/K-2, at the earliest possible date. This allows taxpayers to file their income tax returns earlier, thereby avoiding backlogs and delay of refunds. Fewer returns are filed at the beginning of the tax season than near the April 15 deadline. By increasing the number of tax returns filed early, refunds can be processed more efficiently.

Form W-2 Wage and Tax Statement

2001

Department of the Treasury - Internal Revenue Service
For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.
Printing cost paid by KY Revenue Cabinet.

Do Not Cut, Fold, or Staple Forms on This Page - Do Not Cut, Fold, or Staple Forms on This Page

KRC Participates in Treasury Offset Program

In 1998, Congress passed the Internal Revenue Service Restructuring and Reform Act. Part of the provisions of this act allows for the reduction or offset of federal tax refunds to pay past due, legally enforceable state income tax liabilities. The act required the Department of the Treasury by January 1, 2000, to design procedures necessary to collect state income tax liabilities as part of the centralized offset program operated by the Financial Management Service (FMS), a bureau of the Department of the Treasury.

Under the provisions of this act, states must attempt to notify taxpayers via certified mail of the impending offset of their refund. This notification language is included in the final notice before seizure letter that is sent to taxpayers.

KRC began participation in this program in February 2000, becoming only the seventh state to submit debts. Debts have been submitted to FMS on a weekly basis since that date. Through FYE 2001 KRC has collected a total of \$2.4 million on this program. Of this total more than \$1.9 million was collected during FYE 2001. Full participation in this program continues and increased collections are anticipated as more taxpayers become eligible for offset and are placed with FMS.



Kentucky's Pension Exclusion, Standard Deduction Increase for 2002 Tax Year

Kentucky's individual income tax pension exclusion for the 2002 tax year is increasing to \$38,775. This exclusion applies to tax returns due April 15, 2003, and takes effect on Jan. 1, 2002.

Retirees who make quarterly estimated Kentucky individual income tax payments should take this revised pension exclusion into effect when calculating their quarterly payments for 2002. The first payment is due on April 15, 2002.

For the 2001 tax year, for which returns are due on April 15, 2002, the pension exclusion is \$37,500.

The revision is made pursuant to KRS 141.0105, which requires KRC to adjust the exclusion annually for inflation.

Additionally, Kentucky's standard deduction for individual income tax increases from \$1,750 to \$1,800 for the 2002 tax year as authorized by KRS 141.081(2). Taxpayers who do not itemize deductions on their individual income tax return are entitled to claim the standard deduction.



KRC Allows Submission of Employer Information Via FTP

In a continuing effort to make compliance with Kentucky's tax laws easier, KRC again offers File Transfer Protocol (FTP) as an alternative method of submitting the Report of Annual Employee Wage and Tax Information for the 2001 tax year. KRC supports and requires the same file layouts as the Social Security Administration (SSA). For tax year 2001, KRC **does** accept the Magnetic Media Reporting Electronic Format (MMREF) via FTP. This means that employers who currently use this layout can easily use FTP.

Regulation 103 KAR 18:050, Section 5, requires employers with 250 or more employees doing business in Kentucky to magnetically or electronically report annual wage and tax information.

Accordingly, most employers who currently submit electronically to the SSA must also submit the appropriate information to KRC electronically. KRC is again enabling FTP technology to further automate these reporting requirements.

The underlying philosophy behind FTP is that since the data already exists electronically, it is logical to send this

information securely via FTP rather than putting the information on a magnetic cartridge or diskette, paying a third party deliverer, and waiting for acknowledgment of receipt.

KRC is excited about FTP because it not only streamlines processing of the wage and tax information, it also offers an easier, more secure way for employers to meet the filing requirements.

KRC has developed a software application, which is available at no cost, to provide FTP capability. It is enveloped by an install shield to make installation easy. The FTP program and specifications can be downloaded from KRC's Online Taxpayer Service Center at <http://revenue.state.ky.us>. KRC will assign an identification number and clarify FTP procedures after an employer declares its intention to submit annual wage and tax reports to KRC via FTP.

For more information on KRC's FTP application, contact the Kentucky Revenue Cabinet, Withholding Tax Section, 200 Fair Oaks Lane, Station 57, Frankfort, KY 40620; by telephone at (502) 564-7287, by fax at (502) 564-2041; or by e-mail at RevWeb@mail.state.ky.us.



40A727
10-01**KENTUCKY INCOME TAX
FORMS REQUISITION****FROM: Revenue Cabinet
Frankfort, KY 40620**

The label at right will be used to mail your forms. **Do not detach.**
Please prepare a duplicate address below for our files.

Name _____

Street _____

City, State _____

and ZIP _____

Phone (____) _____

Date Ordered _____

TO: Name _____

Street _____

City, State _____
and ZIP Code _____**Check one:** ☐ Individual ☐ Attorney ☐ CPA ☐ Tax Practitioner ☐ Other _____**Package K** (contains all individual, fiduciary, partnership, corporation
and S corporation income tax forms, schedules and instructions) Quantity **➤**

FORMS	ISSUANCE NO.	QUANTITY
740—Kentucky Individual Income Tax Return	42A740	*
740/740-S/740-EZ—Instructions	42A740-S11	
740-EZ—Kentucky Individual Income Tax Return	42A740-EZ	*
740-S—Kentucky Individual Income Tax Return	42A740-S	*
740-X—Amended Kentucky Individual Income Tax Return	42A740-X	
740-NP—Nonresident or Part-Year Resident Income Tax Return	42A740-S9	
Schedules A & ME (740-NP)—Itemized Deductions/Moving Expense and Reimbursement	42A740-S9 (A & ME)	
740-NP Packet	42A740-S10	
740-NP-R—Nonresident Income Tax Return—Reciprocal State	42A740-S9-R	
740-ES—2002 Estimated Tax Voucher	42A740-ES	*
740-ES—Instructions	42A740-S4	
Schedule A (740)—Itemized Deductions	Schedule A	*
Schedule J—Kentucky Farm Income Averaging	42A740-J	*
Schedule M—Kentucky Federal Adjusted Gross Income Modifications	42A740-M	*
Schedule P—Pension Income Exclusion	42A740-P	*
Schedule TC—Tax Computation Schedule	42A740-TC	*
Schedule UTC—Unemployment Tax Credit	42A740-UTC	*
1045-K—Kentucky Net Operating Loss Application for Income Tax Refund	42A740-S20	*
1045-K—Instructions	42A740-S20(I)	
2210-K—Underpayment of Estimated Tax by Individuals	42A740-S1	*
4972-K—Kentucky Tax on Lump-Sum Distributions	42A740-S21	*
8453-K—Kentucky Individual Income Tax Declaration for Electronic Filing	42A740-S22	
740-V—Kentucky Electronic Payment Voucher	42A740-S23	
8582-K—Kentucky Passive Activity Loss Limitations	42A740-S18	*
Application for Extension of Time to File Return (Individual, Partnership, Fiduciary)	40A102	

***Forms shaded and marked with an
asterisk(*) are provided at no charge.**

Total Forms—Page 1

Total Forms—Page 2

Total Forms Provided at No Charge

Total Forms **➤**

Package K x \$6.00 (each additional \$5.00)

Total Forms x \$_____ each (see Forms Cost Schedule below) .

Envelopes x \$3.50 per group of 100

Subtotal

Sales Tax (6%) (Kentucky residents only)

TOTAL **➤**

Forms Cost Schedule

1 – 24	NC
25 – 74	\$.09 each
75 – 100	.07
101 – 200	.06
201 – 500	.05
over 500	.04

Make check payable to:**Mail order form and check to:**

Kentucky State Treasurer

Kentucky Revenue Cabinet



FORMS

P.O. Box 518

Frankfort, Kentucky 40602-0518

FORMS	ISSUANCE NO.	QUANTITY
741—Kentucky Fiduciary Income Tax Return	42A741	
741—Instructions	42A741(I)	
741-D—Capital Gains and Losses	42A741-D	
Schedule K-1 (741)—Beneficiary's Share of Income, Deductions, Credits, etc.	42A741 (K-1)	
765—Kentucky Partnership Income Return	42A765	
765—Instructions	42A765(I)	
Schedule K-1 (765)—Partner's Share of Income, Credits, Deductions, etc.	42A765 (K-1)	
720—Kentucky Corporation Income and License Tax Return	41A720	*
720—Instructions	41A720(I)	
720S—Kentucky S Corporation Income and License Tax Return	41A720S	*
720S—Instructions	41A720S(I)	
Schedule K-1 (720S)—Shareholder's Share of Income, Credit, Deductions, etc.	41A720S (K-1)	*
720X—Amended Kentucky Corporation Income Tax and Corporation License Tax Return	41A720X	
720ES—Corporation Estimated Income Tax Voucher	41A720ES	*
720ES—Instructions	41A720-S4	
Schedule A (720)—Apportionment and Allocation	41A720A	*
Application for Extension of Time to File KY Corporation Income and License Tax Return	41A720SL	*
Schedule EZC—Kentucky Enterprise Zone Tax Credit	41A720EZC	*
Schedule HH—Housing for Homeless Families Deduction	41A720HH	*
Schedule RC—Application for Income Tax Credit for Recycling and/or Composting Equipment	41A720RC	*
Schedule RC(C)—Continuation Sheet for Schedule RC	41A720RC(C)	*
Schedule RC (K-1)—Pro Rata/Distributive Share of Recycling Equipment Tax Credit	41A720RC (K-1)	*
722—Election to File Consolidated Kentucky Corporation Income Tax Return	41A722	*
851-K—Kentucky Affiliations and Payment Schedule	41A851-K	*
Total Forms—Page 2 (enter here and on page 1)		➤
ENVELOPES (Available in groups of 100 only)		
Refund 6" x 9" Blue —Enter number of groups here and on page 1		➤
Payment 6" x 9" Yellow—Enter number of groups here and on page 1		➤

***Forms shaded and marked with an asterisk(*) are provided at no charge.**

 <p>Electronic Filing—It's to your advantage! Choose one of these easy methods!</p> <ul style="list-style-type: none"> ➤ Federal/State Electronic Filing ➤ Federal/State Online Filing 	 <p><i>Have you seen our new Web page?</i></p> <ul style="list-style-type: none"> ➤ Forms ➤ Instructions ➤ and a Whole Lot More! <p>http://revenue.state.ky.us</p>
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Court Case Update

Sales and Use Tax—On August 30, 2001, the Kentucky Board of Tax Appeals (KBTA) rendered a decision in the use tax case of **Morton Building, Inc. v. Revenue Cabinet**, K92-R-80, that affirmed KRC's final ruling denying the taxpayer's refund claim. In this case, the taxpayer purchased steel and wood in bulk and manufactured these raw materials into various building components outside Kentucky. These components were then used by the taxpayer to erect buildings in Kentucky.

The KBTA held that the taxpayer was a contractor liable for sales and use tax under Regulation 103 KAR 26:070 for its purchases of building materials used in its construction of buildings in Kentucky. This administrative regulation governs all contractors, contractor-manufacturers, and contractor-retailers, and its application in this case along with KRS 139.310 mandated denial of the taxpayer's refund claim.

In this case, the taxpayer was a contractor-manufacturer that fabricated items and subsequently used them to erect real property improvements in Kentucky. It was, therefore, subject to Kentucky sales and use tax on its cost of the tangible personal property that entered into the manufacture of those materials.

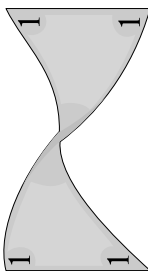
The taxpayer has appealed the KBTA's decision to the Franklin Circuit Court (Civil Action No. 01-CI-01341).



Estimated Tax Payment Deadlines

Individual income taxpayers are reminded that final 2001 quarterly estimated tax payments of 25 percent are due on Jan. 15, 2002. Taxpayers who have not yet made their April 15, June 15, or Sept. 15, 2001, estimated payments should submit those payments as soon as possible to minimize underestimation penalties.

Final 2001 estimated corporation income tax payments of 25 percent are due on Dec. 17, 2001.



Two-Dimensional Bar Code Approved for 2001 Individual Income Tax Returns

New for the 2002 processing season, KRC will be accepting returns filed with a two-dimensional (2-D) bar code. Computer-generated forms 740, 740-S, and 740-EZ will have a new look if prepared and printed with certain versions of computer software. KRC has approved a format to allow for printing of a computer-generated 2-D bar code. The computer software prints all of the information from the return in bar-code format. The bar code is printed in the top right corner of page 1 of the tax return. By encoding all of the tax return information into a 2-D bar code, returns can be processed in just a fraction of the time it takes to process a traditional paper return.

KRC prefers to receive all returns electronically, since this process is more efficient, more accurate, as well as much faster. However, KRC realizes that a number of taxpayers are not ready to give up on paper returns. Therefore, 2-D bar coding on paper returns serves as a bridge between paper returns and electronically filed returns for certain taxpayers. Filing your return with a 2-D bar code does not increase your chance for audit.

For a list of software companies and Internet filing sites, visit our Web site at <http://revenue.state.ky.us>. Forms mailed in the tax packet and those available from the Cabinet will continue to have scan boxes.



KRC Offices Closed for Holidays

Pursuant to KRS 18A.190, all KRC offices will be closed Monday, Nov. 12, in observance of Veteran's Day; and Thursday and Friday, Nov. 22 and 23, in observance of Thanksgiving; Monday and Tuesday, Dec. 24 and 25, in observance of Christmas; and Monday and Tuesday, Dec. 31 and Jan. 1, in observance of New Year's day. Normal hours will resume on Jan. 2, 2002.



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Comments, suggestions and mailing list additions or corrections should be addressed to the Public Information and Communication Services Branch, Revenue Cabinet, Station 14, Frankfort, Kentucky 40620, (502) 564-4592.

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KRC can be found on the World Wide Web at <http://revenue.state.ky.us>

To provide courteous, accurate
and efficient services for the benefit of
Kentucky and its citizens, and admin-
ister the tax laws of the Common-
wealth in a fair and impartial manner.

Kentucky Revenue Cabinet
Mission Statement

COMMONWEALTH OF KENTUCKY
REVENUE CABINET
FRANKFORT, KENTUCKY 40620

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